CASH FLOW PROFESSIONALS CAN MAKE SIGNIFICANT ADDITIONAL INCOME WITH COMMERCIAL AND RESIDENTIAL LOANS

Sooner or later most cash flow professionals are asked if they can make a commercial or residential loan to a business or individual. Why feel compelled to say "no", and not make any money? We at *Financial Resources* want to teach consultants to say, "YES," under most circumstances. Now with our help you can make money on these requests. Throughout this package, we will provide you with step-by-step instructions and training on exactly what you need to know in order to be successful. *Financial Resources & Assistance of the Lakes Region, Inc.* which we'll simply call Financial Resources, is a multi-faceted full service mortgage company founded in 1989 by Scott Farah. The corporate headquarters is in Meredith, New Hampshire, and there are branch offices in Tulsa, Oklahoma and several other states. For cash flow consultants, all inquiries regarding residential loans should be directed to Cindy Buckmaster in the Tulsa, Oklahoma office at Phone: (918) 307-1949, Fax: (918) 294-1913, or Email: cbuckmaster@franh.com. Requests for commercial loans, quotes on private mortgages, business notes, or something unusual should be directed to Jeff Long in the Tulsa, Oklahoma office at (918) 307-2003, Fax: (918) 307-2103, or Email: JLong@franh.com

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COMMERCIAL REAL ESTATE LOANS

YOU CAN GENERATE SIGNIFICANT COMMISSIONS BY WORKING WITH *FINANCIAL RESOURCES*

I. INTRODUCTION

The following is a substantial business opportunity and what we believe can develop into a mutually beneficial professional relationship. Our main goal is for you to have an overall understanding of commercial loans and increase your confidence level when you find a commercial deal. Our secondary goal is for you to be able to recognize the differences between a good and bad commercial deal. Throughout this package of information we will also explore some great marketing ideas and how you can find commercial loans and significantly increase your income stream.

Biggest difference between Residential loans and Commercial loans: With residential loans the underwriting focus is typically about 80% on the borrower and 20% on the property. With commercial loans the focus is opposite in that 20% is on the borrower and 80% on the property. For example, if a person wishes to buy a typical single family residential house and the appraisal meets the normal underwriting standards, then the vast majority of the underwriter's attention will focus on the qualifications of the borrower. Such residential loan borrower qualifications include: credit scores, debt ratios, job history, gross monthly income, etc. Borrower qualifications are necessary when underwriting a commercial loan, but once it is determined that a borrower fits, all of the remaining focus is then on the property. Thus we would encourage you to make this mental shift to understand commercial underwriting.

If you remember just one thing about commercial loans, make it *the value of a piece of property is largely a function of the income that the property has generated or is capable of generating.* This fact will then become the focus of what this loan is about, the LTV, the Debt Service Coverage Ratio, the CAP rate, and the terms & type of loan available.

Keep in mind that there are two types of commercial properties. One type is an Income Producing Property such as an apartment complex, an office building, a marina, a mobile home park, etc. These properties generate income as a result of leasing the space to tenants. Rental income is the key. The second type is a Business Property. This, type of commercial property generates income as a result of a business activity that takes place on the property, i.e.: restaurants, bowling alleys, etc. Income from the business is the key here. Both types of commercial properties are underwritten in similar manners. But, no two commercial properties or borrowers are the same, thus underwriting needs will vary from one property type to the next

Financial Resources is very aggressive with commercial properties. We will consider most commercial real estate loans between \$200,000 & \$30,000,000 both for purchases and refinances. We ask that you fax over a detailed Executive Summary for your loan request. Sometimes brokers send a deal indicating that it is "commercial" but not what kind of property it is. Is the "commercial" property a medical clinic, a hotel, or salvage yard? The type can make an enormous difference in the LTV, interest rate, points charged, etc.

Key point: Many brokers find it easier to summarize their deal if they pretend they are loaning their own money. With this in mind, please provide all of the details that you would want to know if you were making the loan yourself. Please use our attached Executive Summary form.

II. THE BIG PICTURE OF COMMERCIAL LOANS

Financial Resources makes three types of loans: (1) Grade "A" loans include conventional, SBA and HUD loans; (2) Grade "B-C" loans include stated income loans, mediocre credit loans and private mortgage simultaneous closes; (3) Grade "D" loans are typically known as hard money loans or bridge loans.

Throughout this package we will explore each of these loan types and give you examples that will help you recognize what type of loan is on your desk. First though, we need to explore some of the basics of commercial loans so that you can understand the big picture.

All commercial loans are considered to be either a "Purchase", a "Refinance" or a "Construction" (including rehab) loan.

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PURCHASES: Any real estate transaction that involves the transfer of ownership in a property is considered a purchase. This can include some construction loans where the borrower is buying the land at the same time that he is building on the property. The key underwriting factors in purchase deals include: the property information, the credit of the borrower, the down payment as a percentage of the purchase price, and the ability to repay the debt.

REFINANCES: Any real estate transaction that involves paying off existing debt, taking cash out of a property and/or paying for improvements or rehabilitation is considered a refinance. This includes some types of construction loans where the borrower already owns the land and is now building on the land. The key underwriting factors in refinance deals include: the property information, the credit of the borrower, Loan-to-Value (LTV), and the borrower's ability to repay the debt. Some refinances are just "Rate and Term" refinances, meaning that we are only paying off the existing debt on the real estate plus the closing costs. The result is typically a lower monthly payment for the borrower. In contrast, a "Cash Out" Refinance allows the borrower to take some cash out of the property, for reasons unrelated to the property.

****NOTE: If a property has been owned for less than two years we typically use the purchase price plus the cost of any improvements made for determination of the property's value. Case by case exceptions can be made**

WE DO NOT MAKE LOANS ON THE FOLLOWING PROPERTY TYPES: power plants, waste disposal property, casinos, bars and adult themed businesses. We also do not make $0 down payment or 100% LTV commercial loans.

Tip A commercial loan involves real estate, where as a business loan involves non-real estate collateral. **Always clarify.**

As I mentioned in the beginning, one of our goals is for you to be able to evaluate and screen a loan to see if it is worth your time. Ask yourself, "If I had the money would I make this loan to this borrower?" If the answer is a solid No, then don't waste your time. If the answer is Maybe or Yes, then proceed. Then ask yourself, "What information and answers would I want to have if I were loaning the money?" Most likely we will be asking the same questions. If you can then get these answers, we'll all be ahead in the loan process.

One of the main ways to screen a commercial loan request is through the LTV being requested. With residential loans, brokers are used to 100% LTV which unfortunately is not the case with commercial loans. Thus, when a commercial borrower has nothing down, you should either help him find a down payment or simply pass on the loan.

Tip One potential source for a down payment on a commercial property is through a cash-out refinance on a residential property.

III. ITEMS NEEDED IN A LOAN PACKAGE

If we are provided with a THOROUGHLY DOCUMENTED LOAN PACKAGE IT CAN MEAN A SMOOTH LOAN PROCESS AND LOAN CLOSING. IN ORDER TO THOROUGHLY UNDERWRITE THE FILE THE FOLLOWING ITEMS SHOULD BE INCLUDED WHEN YOU SUBMIT A PACKAGE:

1. Executive summary with your cover sheet describing the transaction and any peculiar circumstances with the borrower or property. Please tell us the full story on the Executive Summary form included in this package.
2. Last 2-3 years Income & Expense Statements and Year-To-Date Statements from the property *seller* if this is a purchase or the *borrower* if this is a refinance (unless a start up business, for which we will accept projected statements).
3. Previous 2 years corporate tax returns from the *seller* of a property if this is a purchase, OR 2 years corporate tax returns from the *borrower* if this is a refinance, AND 2 years personal tax returns with all schedules from the *borrower*.
4. A detailed property rent roll lease summary that shows who the tenants are and the length of their remaining lease.
5. Color photographs of the property. Include, front, rear, street scene, neighborhood, and inside if possible.
6. Personal Financial Statement or a residential form 1003 loan application on all borrowers who own more than 20% of the company or property.
7. The name, social security number, home address and a business experience resume on all owners of more than 20%. We will pull a credit report on the borrower(s) unless we are provided with a credit report that is less than 60 days old.
8. Copy of a previous or existing appraisal if available. We need to learn about the property.

IV. UNDERSTANDING FOUR KEY FOUNDATIONS OF COMMERCIAL LOANS

We will now explore: how to arrive at the <u>Net Operating Income (NOI)</u> for a property; what is a <u>Debt Service Coverage Ratio (DSCR);</u> what is the <u>Capitalization (CAP) rate;</u> and the methods used to determine the <u>property value.</u> These concepts are the central core of commercial underwriting. Mastering these concepts should be a goal. Fortunately, these foundations of commercial underwriting are similar to the foundations of residential underwriting. For example the Net Operating Income on a <u>commercial</u> property is similar to an individual's income on a <u>residential</u> loan in that these figures will determine what loan amount the borrower qualifies for as well as if the loan will be a full documentation loan or a stated income loan. Another example of similarity would be the <u>commercial</u> Debt Service Coverage Ratio and the <u>residential</u> Debt to Income Ratio, for they will both determine the maximum loan amount that a borrower will qualify for.

<u>ABC Company Example:</u> In order to better understand the following concepts, we will use some key figures from a tax return on ABC Company. We will assume that ABC Company owns a building that they think is worth $1,200,000 and on which they currently owe $930,000. Additionally, the owners of the company have excellent personal credit, and all other aspects of the loan are strong. The goal of ABC Company is to refinance their existing commercial mortgage with a new $960,000 mortgage that rolls in the points charged, have a 20 year amortization loan with no balloon, and lower their interest rate. Using the following figures let's look at their request to see if they qualify:

Gross Income (per the tax return): *$1,000,000*
Operating Expenses (the <u>sum</u> of <u>most</u> expenses listed on the tax return): *$880,000*
Interest Expense (a separate expense item not included in the operating expense sum listed above): *$90,000*
Depreciation Expense (a separate expense item not included in the operating expense sum listed above): *$20,000*
Net Income (the bottom line figure, $1,000,000 minus $880,000 minus $90,000 minus $20,000): *$10,000*

<u>FOUNDATION #1 - NET OPERATING INCOME (NOI)</u>: If the Net Income or Net Operating Income or NOI is listed on a tax return or financial statement then you should begin with that figure. Using our ABC Company example this would be $10,000. Because Depreciation expense is only a tax related expense and not an actual hard dollar expense, commercial underwriting standards allow the figure to be added back into the Net Income figure. Additionally, since the Interest expense is going to be replaced with our new loan, we will also allow this figure to be added onto the Net Income figure. Thus, you can add back any Depreciation and Interest expense if they are specifically listed as expenses on the tax return that resulted in the Net Income. Adding back the Depreciation and Interest expenses to the Net Income creates the usable Net Operating Income figure that can then be used for value determination purposes. In summary, Net Income + Depreciation expense + Interest expense = NOI, which can then be used for value determination purposes. Using the figures from ABC Company: the Net Income of $10,000 + Depreciation of $20,000 + Interest of $90,000 = An NOI of $120,000 that can be used for value determination purposes. In cases where a property is being purchased for the purpose of moving an owner operated business from a rented location to an owned location, we will allow the borrower to add their previous annual rent expense to the NOI, in lieu of interest expense.

In some cases, such as when reviewing a company's financial statement, there might not be any expense item shown for Depreciation or Interest. This simply means that the person who prepared the financial statement understands the concept of commercial loan underwriting and decided to list only the expenses that affect the Net Operating Income for loan purposes. In other cases, the interest and depreciation expenses are shown on the financial statement but are listed AFTER, the Net Operating Income figure. This also shows that the person who prepared the financial statement understands loan underwriting, but wanted to show the depreciation and interest figures for full disclosure purposes.

<u>FOUNDATION #2 - DEBT SERVICE COVERAGE RATIOS (DSCR):</u> Understanding this concept is important when dealing with commercial loans. Since most borrowers will not understand this concept, you should know the basics so you can explain it to them. We will ultimately calculate the ratios since only we know what the interest rate will be on the loan. However, you can come up with a rough idea. <u>The DSCR is the ratio of the monthly net operating income to the monthly mortgage payment.</u> The concept is simple and it reveals the amount of **cushion** that a borrower has between the monthly mortgage payment and the monthly NOI. To illustrate, if a borrower had a monthly NOI of $100, would it make sense to make him a loan with a monthly mortgage payment of $150? The answer of course is that it would not make sense. He would clearly be in the hole by $50 with every payment. However, if the numbers were reversed and the monthly NOI was $150 and the mortgage payment was $100, than there would be a cushion of $50 to fall back on if the

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NOI were to decrease. To calculate the DSCR using this example you simply divide the monthly NOI of $150 by the monthly mortgage payment of $100 to reveal a DSCR of 1.5. **The key formula is Monthly NOI divided by the monthly payment equals the DSCR** ***(NOI / Payment = DSCR).*** The ideal underwriting standards for DSCR are above 1.35 but they can range from 1.0 to 2.0 depending on the property type, the borrower, and the lender. For your purposes, you should use a guideline of a 1.25 DSCR when screening deals.

The FIRST step in calculating the DSCR would be to calculate the usable NOI. Remember that it is important to make sure the Depreciation and Interest expense figures are properly included in the NOI figure. Otherwise, you might miscalculate how much of a loan they qualify for. Using our ABC Company example where the annual NOI is $120,000 you would divide this figure by 12 and find that the monthly NOI is $10,000. The SECOND step is to come up with an estimate of what you think their interest rate and mortgage payment will be. The LAST step is to calculate the DSCR. Using our ABC Company example, given that they are seeking a $960,000 loan, the question would be, "do they meet the needed DSC Ratios?" The terms of a new $960,000 loan are an important factor. Assuming the amortization is 20 years and the interest rate is 7.95%, would they qualify? Using your calculator you would come up with a monthly payment of $8,000. Since the calculation for the monthly NOI for ABC Company is $10,000, you would divide this by the $8,000 monthly payment. Thus $10,000 divided by $8,000 equals 1.25. As indicated earlier, this DSCR of 1.25 is a great target to use and is an indication that ABC Company's request is reasonable.

It is useful to understand that the standard 1.25 DSCR can be used either forward or backward as a method of pre-qualifying or pre-underwriting a borrower's loan request. In this ABC Company example you can start with the $10,000 monthly NOI figure and then calculate the maximum payment they would qualify for. Using the forward method you would begin with the $10,000, divide it by 1.25, and will arrive at $8,000. If an $8,000 monthly payment fits inside the borrower's loan request parameters, then the loan request is worth pursuing. For example, if the borrower was seeking a $5,000,000 loan and you calculated that they could only afford an $8,000 payment, then most likely the deal would not be worth pursuing since the payment on a $5,000,000 loan would be far in excess of $8,000. The backward method using the 1.25 DSCR would mean that you first calculate the borrower's monthly payment amount and you multiply it by the 1.25 DSCR which results in the NOI figure needed to qualify. Thus in the case of ABC Company you would simply multiply the $8,000 times the standard 1.25 DSCR and will arrive at $10,000. You would then conclude that if the monthly NOI is at least $10,000, THEY QUALIFY.

Here is yet another simple way to look at DSCR - but this time on an annual basis. The simple formula is annual NOI divided by annual Debt Service = DSCR. Annual Debt Service is the sum of all Principal and Interest payments on a loan for a year. For example if the NOI is $120,000 and if the total of all mortgage payments is $96,000 then the DSCR would be 1.25 ($120,000 / $96,000 = 1.25).

FOUNDATION #3 - CAPITALIZATION RATE (CAP rate): The CAP rate is an industry calculation used to determine the value of a property. The CAP rate is basically the targeted return on an investment for a particular type of property. The most common CAP rate is 10. This is also known as a 10 CAP. For simplicity you should use the 10 CAP in helping you determine the value. The formula is: NOI divided by CAP rate = estimate value. Using the ABC Company example where the NOI was $120,000, you would then divide by a 10 CAP (which is written, as .10) and the result would equal a $1,200,000 value ($120,000 divided by .10 = $1,200,000). In order to keep things simple there is a short cut. Mathematically speaking, you would get the same result from dividing the NOI by .10 as you would from multiplying the NOI by 10. So, for our example you could start with the $120,000 NOI and multiply it by 10, and your result would be the same $1,200,000 value using a 10 CAP. This only works when using a 10 CAP. Thus don't use this shortcut with any CAP rate other than 10. Had this property type been of a more risky nature such as a gas station or a dry cleaner the CAP rate might be 12. In this case, the property value would be calculated as, $120,000 NOI divided by .12, which equals a $1,000,000 property value. Had this property been of a less risky nature, such as an apartment complex, or an office building, the CAP rate might be 8. In this case the property value would be calculated as, $120,000 NOI divided by .08, which equals $1,500,000.

FOUNDATION #4 - DETERMINING THE PROPERTY VALUE: It is critical to the success of a loan that we make sure that a property's value is sufficient to meet the client's loan request. Thus in the initial stages of evaluating a loan request you should ask how the borrower determined the value of a property and make sure this is realistic. This potential problem is more common on refinances than on purchases. Sometimes borrowers overstate the value due to a poor guess or wishful thinking or for some form of a weak negotiating tactic.

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Some good sources for initially determining the property value are as follows: an unbiased realtor's opinion of value, a previous appraisal, some recent comparable sales, and the last purchase price of the property in relation to time and local appreciation rates. These are all low cost ways for a borrower to come up with the approximate property value.
THE SECOND BEST FORM of value determination, that doesn't cost the borrower anything, is to determine the value based on the Net Operating Income (NOI) divided by the appropriate capitalization (CAP) rate. Please refer to the previous section on CAP rates for more information on this method.
THE BEST METHOD of property value determination is to obtain an appraisal from a licensed appraiser. On commercial loans, an appraisal may cost $1,000 to as much as $25,000. The cost of an appraisal depends on the property type, its location, its size, the loan amount, and several other factors. Fortunately, the foundations of commercial loans such as NOI and CAP rates contribute to what is called the *Income approach* that the appraiser uses to determine the value. Additionally, an appraiser is going to evaluate the *Cost Approach* in what it would cost to rebuild the property as well as the value of comparable property sales using the *Comparable Sale approach.* The appraiser then reconciles these three approaches and reaches a conclusion on the final property value. An example of the power of an appraisal can be seen in a loan we recently made. The buyer and seller had agreed to a purchase price of $475,000. The appraisal came in at $220,000. Given the dramatic discrepancy, we had to get a second appraisal that also came in at $220,000. Thus it appeared that the seller was either over confident or trying to deceive the buyer. Once provided the proof that his property was only worth $220,000 the seller reluctantly agreed to lower the sale price and the loan closed.

Conclusion on the ABC Company example loan request: At first glance the ABC Company loan request may look weak with only a $10,000 Net income from the tax returns. Many people would assume that the loan request is not worthy of any time spent. However, as outlined and explored in these foundation principles, the ABC Company loan request would be approved. Please note that the key focus point of this loan request example is the Net Operating Income. Since the other three foundation principles all center on the Net Operating Income figure, understanding this foundation principle can be the difference between a closed loan and putting the file in the dead drawer.

V. ADDITIONAL SERVICES OFFERED

Financial Resources also buys, at top dollar, seasoned and unseasoned residential and commercial private mortgages, as well as non-real estate secured BUSINESS NOTES. A business note would result from the sale of a business where the seller took back a note in lieu of the buyer obtaining financing. If you come across something that you would like us to make an offer on, please send us a summary of the transaction.

VI. COMMONLY ASKED COMMERCIAL LOAN QUESTIONS

To whom do I send inquiries and executive summaries?
** Call Jeff Long at phone (918) 307-2003. Or preferably email Jeff at JLong@franh.com or fax a summary to Jeff at fax (918) 307-2103. Either he or someone in the commercial loan department will contact you to address all of your questions. This will speed up the underwriting process and keep communication simple and clear.

How do I get paid and what is the COMMISSION range I can earn?
** Commissions are paid upon the closing of the loan. The standard base fee is .5% to 1% (one-half to one point) of the loan amount. However, with the majority of loans we pay closer to the 1% figure. In some cases we can even pay more than 1%. Your level of involvement, the size of the loan, competition, and the borrowers demands are some of the determining factors that can affect your commission level.

How long does it take to close a loan?
** Commercial loans take 30-90 days. However, in some hard money circumstances a loan can close in less than 30 days.

Do you make loans with no money down?
** Absolutely Not. Loans must have a minimum cash down payment of 10%-30% of the purchase price. However, in some cases the seller is allowed to hold back a second mortgage if the borrower does not have more than 10% down.

The appraised value is greater than the purchase price. Can you finance the full purchase price? Example: If the appraised value is $1,500,000 and the purchase price is $1,000,000, can we finance the full purchase price at $1,000,000?
** Absolutely Not. The property value for loan purposes is based on the LESSER of purchase price or appraised value. The principle is called, "willing-buyer/willing-seller. The concept is that a seller will sell his property for what it is worth,

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and a buyer will buy the property for no more than what it is worth. However, if an appraiser concludes the value is less than what a willing-buyer/willing-seller have agreed to, then the appraisal value will be used for underwriting the loan.

Do you make commercial construction loans?
** Yes, we are aggressive with construction loans on apartment complexes, nursing homes, assisted living facilities, and mobile home parks, where the loan amount is greater than $1,000,000 at up to 90% LTV. As for construction loans on owner occupied properties we can also make a loan up to 90% LTV if the borrower meets our SBA program guidelines. Outside these property types the borrower will most likely need to have funds available for a 20 to 30% down payment. We also make residential and commercial hard money construction loans for borrowers or contractors who are in a bind.

Do you make second mortgages?
** Rarely. We only make first mortgages. Please do not send us a request for a second mortgage. However, sometimes the answer to a borrower's request for a second mortgage is to make them a cash-out refinance new FIRST mortgage. Usually this is limited to 65-75% LTV. Thus, you should explore this option with your borrower.

Who pays for closing costs and appraisals?
** The borrower is always responsible for these costs. Some closing costs may be financed on refinance transactions. Appraisals are paid for in advance once a Letter of Intent is issued. In every loan we make there are loan charges known as points, sometimes the points are as low as 2 and sometimes as high as 10. A point =1%. Many factors determine the number of points charged: type of property, type of loan, loan amount, credit grade of the borrower, etc.

Are there any up front fees?
** Maybe. In some cases we will require a due diligence fee to cover third party expenses such as an appraisal, an environmental study and title work. The fee is paid after we have reviewed all documents provided by the borrower and the terms have been accepted. We also require a processing fee to be paid after the borrower has accepted the terms.

Who works with the borrower?
** We would prefer to work with the borrower once our terms are accepted, but if you want to continue working with the borrower this is usually acceptable. However, we do have a policy of only accepting loans that have no more than one person between the borrower and us. Our goal is to avoid a chain of brokers and wasting time on a loan that is not likely to close. If we work with the borrower, we will send you a non-circumvention agreement for your protection. We will also send you a fee agreement acknowledging what you will receive upon a successful closing.

What is the loan process?
** (1) Send us a detailed executive summary and requested information. (2) If the loan is more complex or if we have further questions or needs, we will request additional information from you. (3) Once we have enough information we will give you approximate loan terms within 5-7 business days. (4) Upon acceptance of the terms, we will issue a Letter of Intent and have the borrower sign an agreement that outlines the terms, costs and the procedural items needed. (5) At this point we would ideally like to work directly with borrower, but you may continue to do so if necessary. (6) The appraisal, title work, and due diligence is then completed. (7) The closing takes place.

Why should I add commercial loans to the services I offer my clients?
** (1) Residential loans have peaks and valleys based on the economy and interest rates, thus supplementing with commercial loans can help you through tough times. (2) Commercial loans are not as volatile since interest rates do not change as often, there is always a need for commercial capital, and the money supply for Grade "B-C" and Grade "D" loans is plentiful. (3) Local banks do tighten and relax commercial loan parameters from time to time based on local and regional economic conditions but from a national perspective, the market stays consistent.

VII. HOW TO BE PREPARED FOR A COMMERCIAL LOAN REQUEST

FINANCIAL RESOURCES appreciates all of your loan inquiries. We want to deliver a competitive quote on all of your loan requests. The key to the best pricing on any loan is in the delivery of detailed and accurate information about the property, and understanding the motivation of the borrower.

We suggest that consultants conduct a short interview with the borrower to gather the pertinent information and the goals of the financing proposal so that we can quickly customize a loan structure to meet the borrower's objectives. These topics, when used in conjunction with the Executive Summary form, are designed so that you know what questions to ask and how to express the answers. You can never send us too much information. Thus the more you acquire up front, the

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less we will need throughout the loan process. By providing these answers now, neither of us will waste time on a bad deal, or else we can spot problems that need to be dealt with early on.

A typical interview should cover the topics listed below:

TYPE OF FINANCING? Is this a request for a Refinance, a Purchase, Construction, or something unusual?

LOAN AMOUNT? For refinances we need to know what the borrower is using the loan proceeds for. If applicable, what are the total renovation and repair costs? What is their current mortgage balance? Who is their lender? What are the current interest rates, terms, and payments they are paying? When did they buy the property and how much did they pay?

For purchase loans we need the asking price and cash down payment amount. Often borrowers seek loans based on the value of the property instead of the sale price. We base all loans on the lower of the two.

DOWN PAYMENT & LTV? Many brokers waste time on non-fundable deals. The two keys to a fundable loan are down payment and LTV. If the borrower does not have at least 10-30% cash down, do not waste your time, regardless of how convincing the borrower is. Our maximum loan to value on a commercial loan is 90% under our Grade "A" program using our conventional loans, SBA loans and our HUD loan program. The maximum LTV on our Grade "B-C" program is 60-80%. Thus if the borrower only has a 10% down payment, please find out if the seller is willing to hold back a second mortgage. If the seller is unwilling to hold a second mortgage and the borrower only has 10% down and the borrower doesn't fit into our Grade "A" program the loan probably will not work out. Please keep in mind that some deals will require a minimum of 30% down, and will not allow a seller carry back second mortgage.

BORROWER MOTIVATION? What are the key issues? Why do they want to buy this property or why do they want to refinance? What are they looking for in a loan? Are they trying to find a lower interest rate, take cash out of the equity, obtain a longer term, or pay off a balloon? What are the hot buttons? If we know these up front we can focus on meeting their objective. If it is not possible, we will let you know more quickly and move onto the next deal.

WHO HAS SEEN THIS DEAL? Have they gone to other lenders? If yes, then what were the other lenders' terms that were offered? If other lenders turned them down, find out why. Ask yourself if their request seems logical and if it seems realistic for a lender. For example, a request for a 40 yr term, with no balloon, 7% interest, no points, bad credit, and no down payment is not realistic and a waste of time.

DESCRIPTION OF PROPERTY? What is the age of the building, the occupancy percentage, type of tenants, and lease terms? Are there any environmental issues? Is the building neat in appearance or does it need some repairs? Tell us about the area and what is on either side of the building. Encourage the borrower to tell you of any problems with the property UP FRONT!! We want to avoid surprises. They always come up eventually.

POTENTIAL ISSUES WORTH AN INQUIRY? Here are some other general things to look for and be inquisitive about when working on a commercial loan. Potential title issues: Are the property taxes current? Is anyone getting a divorce? Has any principal owner of the property died recently? Are any estates in probate? Are there any property code violations? Any liens? Any IRS tax liens? Any pending lawsuits? Generally speaking, you should develop some instinct about the quality of the loan and the need to address all of these potential title issues. On hard money loans you should ask about all of these potential issues just to be safe. On Grade "A" deals, touching on some would be a good idea. Environmental concerns: Pay close attention to any companies that deal with chemicals, gasoline or oil products, such as: dry cleaners, gas stations, auto repair places, oil change shops, etc. Then ask questions such as: Are you aware of any environmental issues with your property? Have you ever had an environmental study done? How old are the gas tanks (if any)?

KEY QUESTION TO ASK THE BORROWER!!! "CAN YOU THINK OF ANY ASPECT OF YOUR LOAN REQUEST THAT COULD CAUSE A PROBLEM THAT PREVENTS US FROM BEING ABLE TO MAKE YOU THE LOAN?" In other words, we want to avoid any last minute surprises, so please tell us about any flaws now, especially before you spend money on appraisals, etc.

REMINDER TO FOLLOW UP ON YOUR LEADS. Another suggestion is to follow up, follow up, and don't give up. Sometimes borrowers get lazy and stop returning calls. Or sometimes they are thinking of going with another lender and they become less responsive to you. Unless you have heard that the loan has closed elsewhere, always follow up. Even if you are afraid that you are annoying them with an every other day phone call, keep persisting because it could mean thousands of additional commission dollars.

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EXECUTIVE SUMMARY (Commercial Loan Application)

Submitted by: ______________________ Address: ______________________ Date ______________
Phone #: ____________________ Fax #: ____________________ Email: ______________________

The importance of this executive summary: GARBAGE IN = GARBAGE OUT. We routinely see executive summaries with sketchy details and only a fraction of the information we need. To make a decision on your loan request we need all of the applicable blanks completed. If we do not receive enough information we will have to request the information again, adding time to the quote process. The goal should be to tell us in a cover letter and this executive summary the "who, what, when, where, why and how" of the deal.

PURCHASES: (fill in this section only if the borrower wants to buy a property):
Price of Property: $______________ Loan Requested: $______________ Down Payment Amount: $__________
If down payment is less than 25% is the seller willing to hold back a second mortgage? Yes _____ No _____
****In order for this borrower to qualify for a full-income verification loan at the highest LTV and the best interest rates we will need the last 2 years tax returns from the property SELLER. If you are not able to send them now, is the seller willing to provide them? Yes or No (circle one)**

==

REFINANCES: (fill in this section only if the borrower already owns the property and wishes to obtain a new mortgage)
Property appraised value or opinion of value per owner: $__________ Existing Mortgage(s) Balance: $__________

Loan amount requested: $____________ Interest rate requested: _____% Amortization term requested: ______ yrs

Purpose of Loan (circle one): Lower rate, Balloon, Take Cash Out (how much)? ________, Other____________

Date Property was Purchased: ________________ Amount paid for Property: $__________________

==

Property Name:__________________________ Property Condition (circle one): Great, Good, Fair, Poor
Property Address: ____

Property Type (circle one) multi-family # units ____, hotel/motel, mini-storage, retail shopping center, mobile home park, industrial, healthcare, office, mixed use, special purpose ___________, other________________

Major Improvements made to the property: (describe)____
____

Describe any Repairs or Improvements that may be needed: ____
____

Is the Property Owner-Operated? _____ If yes, what building square footage percentage is used by the owner? _______

Number of Units: ____________ Percentage of units currently occupied: ______ Year Property Built: ________
What is the Gross Potential Income (on rental type properties only) if fully occupied: ____________________

Gross Property Income: Current YTD __________ Per tax returns: One Yr Prior__________ Two Yrs Prior_________

Expenses on Property: Current YTD __________ Per tax returns: One Yr Prior__________ Two Yrs Prior_________
Depreciation & Interest expenses: YTD ________ Per tax returns: One Yr Prior__________ Two Yrs Prior_________

==

Borrowing entity: (circle one) individual, partnership, corp., LLC, other Is borrower willing to sign personally? ____

Credit grade of borrower (circle one): A B C D Scores ________. Ever declare Bankruptcy? Yes No What year ______

PLEASE DESCRIBE IN DETAIL WHAT THE BORROWER WANTS TO ACCOMPLISH

Financial Resources, contact person __________________

FINANCIAL RESOURCES & Assistance of the Lakes Region Inc. Main Office: Meredith, NH Oklahoma Branch contact for commercial loans or private mortgages: Jeff Long JLong@franh.com P(918) 307-2003 F(918) 307-2103 Residential: Cindy Buckmaster P(918) 307-1949 F(918) 294-1913 www.financialresourcesincaet

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VIII. HOW TO MAKE MONEY ON ALL TYPES OF LOANS

Now that we have discussed the fundamentals of commercial loans, we now need to discuss how to make money. Each deal that will come across your desk will be different from the previous deal. Thus, we will now discuss the main loan types and what to look for in a deal to decide what the loan terms may look like.

THE THREE TYPES OF LOANS MADE BY *FINANCIAL RESOURCES*:
(1) Grade "A" loans which include conventional, SBA and HUD loans; (2) Grade "B-C" loans which include stated income loans, mediocre credit loans and private mortgage simultaneous closes; (3) Grade "D" loans which are typically known as hard money loans or bridge loans. We will explore each of these loan types and give you examples that will help you recognize what type of loan is on your desk.

GRADE "A" LOANS: If the loan request fits all of the parameters previously mentioned which include, a strong enough Net Operating Income, fitting the right DSCR, the right property value, great credit, an appropriate LTV, a good property appearance, etc., than most likely the loan will fit into our Grade "A" loan program. Please let us know if you think you are sending us a Grade "A" loan.

Conventional Grade "A" loans: This would be for properties such as: Apartment complexes, office buildings, shopping malls, warehouses, mini-storage, hotels and many other types of quality properties. Borrowers of Grade "A" loans who wish to purchase a property should have at least the standard 10%-30% down payment in order to qualify for a 70-90% LTV loan. Additionally, the property income should be fully verifiable through our review of the SELLER'S tax returns for the previous 2 years. Additionally, the loan amount and payments should fit a 1.15 to 1.50 debt service coverage ratio depending on the property type. Typical interest rates will then range between 6-10% on an adjustable or fixed basis with amortization terms between 20 and 30 years. On Grade "A" refinances, the maximum LTV can be as high as 90% when the borrower is just refinancing their existing mortgages, or 75% if they are seeking a cash out mortgage. With this type of loan we are typically competing directly with local and national banks. Thus the profits are slim.

SBA (Small Business Administration) loans and SBA Look-a-Like loans: *Financial Resources* uses this lending program on many loans. SBA loans are perfect for many borrowers and their situations. SBA loans are only for commercial real estate properties where the borrower will owner-occupy at least 51% of square footage of the building. We also have what is called an SBA Look-a-Like program that has more aggressive parameters whereby the property only needs to be 20% owner-occupied. The remaining building square footage can be leased to tenants for additional income. Thus, an owner-occupied restaurant or owner-occupied dry cleaners are properties that would qualify. Conversely a multi-tenant strip mall or a multi-tenant office building where the borrower is not occupying at least 20% of the space, would not qualify. SBA loans can be used for property acquisitions, expansions, or rate & term refinances. Typically, SBA rates are adjustable and tied to the Prime rate. The most common SBA interest rate is prime + 2.75% over a 20 to 25 year amortization with no balloon. The maximum LTV on an SBA loan is 90% with a 10% down payment. However, some property types or loan sizes will not qualify for 90% LTV, in which case the borrower may need a 20-30% down payment. One of the major strengths of an SBA loan is that we can use the borrower's future income projections when we underwrite the loan. This allows a borrower to buy a property that has a weaker historical income and turn it around.

HUD loans: For loan amounts greater than $1,000,000 for apartments, nursing homes, assisted living facilities and mobile home parks the 85-90% LTV HUD loan might be the answer. (For more information see HUD loan pages in section X of this package)

GRADE "B-C" LOANS: Deals that just don't fit the Grade "A" standards as well as deals that are not bad enough for our hard money programs fall into this broad category. All of the previously discussed parameters such as DSCR, LTV, CAP rates, and NOI calculations apply to this loan type as well, however, we have looser standards.

Grade "B-C" loans can be for either purchases or refinances. On Grade "B-C" purchases the borrower should have at least a 10% down payment BUT THE SELLER MUST BE WILLING TO HOLD BACK A SECOND MORTGAGE for between 10% and 40% of the sale price. The ideal would be for the borrower to have the standard 20%-50% down payment eliminating any need for a seller held second mortgage. Fortunately, the flexibility of our program allowing the seller to hold a second mortgage has saved many loans when the borrower only had the minimum 10% down payment.

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Additionally, the debt service coverage ratio should be in the 1.00-1.25 range. The terms on purchases and refinances are typically: LTV 50-80%, interest rates that are higher than Grade "A" rates, 15-30 yr amortizations, a possible prepayment penalty, and a possible balloon.

Stated income loans: This loan type is used when the property's Net Operating Income cannot be proven through tax returns and the income needs to be "stated" by the borrower. The word "property" is emphasized because it is the property's income that is the focus of a commercial loan. If a property is an income type property such as an office building or a business property such as a restaurant than the tax returns should reflect the true income made through the property. In cases where the borrower wishes to purchase a property, the seller might be unable or unwilling to show appropriately profitable tax returns, thus the stated income loan can solve the problem. In other cases where a borrower wishes to refinance his existing mortgage and his previous two years tax returns do not reflect a strong enough Net Operating Income, the stated income loan can be the answer as well.

The key to our stated income loan is that we will allow the borrower to "state" their income for loan purposes. Of course the "stated" income must make sense. We ideally would still like to see the tax returns in case we can make the loan fit our full income verification standards. However, if the tax returns will not work, then we will ignore the tax returns and typically not require any additional proof of income. By allowing the borrower to "state" the property income, we in effect are trusting the borrower's ability to make the monthly mortgage payments. Due to the added risk of the "stated" income, the interest rates are higher when compared to a standard Grade "A" loan. Typically the Loan-to-Values can range from 55% to 80%. We can handle just about any type of property under this loan except raw land and gas stations.

Mediocre credit borrowers. Most Grade "A" loans require at least a middle credit score of 620. Thus, when a borrower has a credit score between approximately 570 and 620, they typically will not fit into the Grade "A" loan category. Our numerous Grade B-C loan programs can then make the difference between a bank loan turndown and a successful closing.

COMMERCIAL SIMULTANEOUS CLOSING SPECIAL PROGRAM: Commercial simultaneous closings may be the answer to many of your and our challenging loan scenarios. Simultaneous closings are part of our Grade "B-C" division. A simultaneous closing is a two-part transaction. The first part of the transaction involves the seller of the property taking back an owner financed private mortgage from the buyer of the property. The second part of the transaction involves *Financial Resources* buying the mortgage from the seller. The mortgage however, is purchased from the seller of the property at a discount. The process is similar to a commercial loan in some aspects and different in others. For example, unlike a commercial loan, we do not care what the terms are on the owner financed mortgage. The seller and buyer could agree to a 3% interest rate and we would still be able to buy the mortgage. The drawback to the seller would be that we would not pay as much for a mortgage with a 3% interest rate as we would for a mortgage with a 10% interest rate. Here are the key issues that must be present in order for a simultaneous close to work:

1. There must be a motivated seller. By motivated we mean that there should be some kind of urgency on the part of the seller whereby he would be willing to accept this type of transaction, and the resultant loss of money from the discounted purchase. The usual circumstances that create a motivated seller might include: (a) The property has been on the market for a while and has not sold for some reason; (b) the seller is in a hurry and is willing to take the first offer that is made to him; (c) heirs to the original property owner desire to sell the property quickly for some fast cash; (d) the seller is going through a divorce or bankruptcy and is in need of a quick sale.
2. We must know how much the seller currently owes on the property.
3. We must know all of the potential problems with the transaction UP FRONT. We expect some issues to deal with and we want to know them in the beginning rather than be surprised, as we get ready to close.
4. The buyer of the property must have at least a 5% down payment, but 10% or more is "strongly!!" preferred
5. The sale price of the property is under $1,000,000.
6. The seller of the property should be willing to holding back a second mortgage in the event that we are only able to buy a first mortgage. See scenario #2 for more information about why this can be advantageous to the seller.

Please see the three scenarios for more information on how a simultaneous closing works.

Simultaneous Closing SCENARIO #1: The property is a suburban motel. It has a few deferred maintenance issues but nothing major. The seller has had a tough time selling the property and it has been on the market for 6 months. He owes

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$150,000 on an underlying mortgage. There are no potential issues to deal with according to the seller. Along comes a good credit buyer who wants the property but he has some issues that have prevented him from qualifying for a traditional loan. Here is the summary:

$500,000 Sale Price agreed to by the property Seller and the Buyer
$100,000 Down Payment paid by the buyer to the seller
$400,000 Owner Financed Private Mortgage given by the buyer to the seller (the agreed upon terms are a 20 year amortization, an interest rate of 10.5% and approximately a $4,000 monthly payment)

Seller takes back $400,000 private mortgage and the transaction closes between the buyer and the seller. We then step in and buy this $400,000 mortgage from the seller for perhaps $320,000. With you as the involved broker, we would just subtract your desired commission from our offer. For example, if you as the broker wanted to make $10,000 and our original offer to buy this mortgage was $330,000, we would quote the seller $320,000 to purchase this mortgage.

<u>Simultaneous Closing SCENARIO #2:</u> Assuming all of the same information from scenario #1 except that there is a 10% down payment instead of 20% and the buyer has weaker credit with a 590 middle score. In order to minimize the discount to the seller, this example includes a first and a second mortgage structure.

$500,000 Sale Price
$50,000 Down Payment
$360,000 Owner Financed Private FIRST Mortgage (20 year amortization, 10.5% interest, $3,600 monthly payment)
$90,000 Owner Financed Private SECOND Mortgage (20 year amortization, 10.5% interest, $900 monthly payment)

As with scenario #1, the Seller would take back the First and Second mortgage from the buyer at the closing. The seller keeps the Second mortgage indefinitely. However, he sells the First mortgage to *Financial Resources* at the closing. In this example let's assume that we are willing to buy this First mortgage for $310,000. If you as the broker wanted to make $10,000, we would then quote the seller $300,000.

Shortly after the Seller's closing with the buyer he will receive the following: (1) $300,000 from the purchase of the First mortgage, (2) the buyer's $50,000 down payment (3) Payments on $90,000 Second mortgage for the next 20 years. The seller will accept this transaction and discounted offer if the situation warrants it and if he is motivated. Additionally there are capital gains tax benefits for holding a second mortgage and deferring payments over time.

<u>Simultaneous Closing SCENARIO #3:</u> Assuming all of the same information from scenario #1 except that the buyer has weak credit with a 580 middle score and only has a 5% down payment. Additionally, the seller is 55 years old and is concerned about income taxes

$500,000 Sale Price
$25,000 Down Payment
$475,000 Owner Financed Private FIRST Mortgage (20 year amortization, 10% interest, $4,580 monthly payment)

In this example the seller does not want to sell the whole mortgage at a steep discount. Nor, he does not want to hold back a second mortgage. The solution is called a "Partial" Purchase." With a Partial Purchase the seller just sells a certain number of payments instead of the entire mortgage. In this example let's assume that he sells *Financial Resources* 120 of the 240 payments. Assuming we are willing to buy the first 120 payments for $280,000, and if you as the broker wanted to make $10,000, then we would quote the seller $270,000.

Thus at closing the seller gets the $25,000 Down Payment plus $270,000 for the mortgage. Then after 10 years has passed we would assign the mortgage back to the seller and the balance is still $346,000. The seller may also be able to defer some income taxes since he did not receive the full proceeds of the property sale when he initially sold the property.

<u>Grade "D" - Hard Money Loans or Bridge Loans</u>

Hard money loans are typically in high demand nationwide. This is also where you as a broker can make a substantial income. Hard money, private money, private lending, bridge loans, and equity loans typically are variations of the same loan product. Hard money does not mean the funds are hard to obtain. Often our hard money loans are the easiest to

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obtain. Generally speaking, the industry defines "hard money" as unconventional asset based lending in which the collateral is real estate. A hard money loan is usually a borrower's "loan of last resort," meaning that all of the borrower's other options have been exhausted and due to some significant need or a problem, the only solution is a hard money loan. The typical reasons for needing a hard money loan would be: fast funding need, rough property type, low credit score, foreclosure bailout, bad property location, etc. The following are the important issues concerning Hard Money loans (HMLs):
- HMLs are short-term loans that get a borrower from one point to another. HMLs should not be considered long-term.
- HMLs might be for the purchase of a property, refinancing, foreclosure avoidance, land development, rehab, etc.
- The maximum Loan-to-Value is between 35% and 65%.
- Interest rates are between 10 and 18%, with interest only or amortized payments and a balloon in 1 to 3 years.
- The points charged typically range from 5 to 10, with additional costs for an appraisal, title, and legal costs.
- Due to the high interest rates and points charged, the borrower must feel that the benefits outweigh the costs.
- The key to closing an HML is the PROPERTY. If the property is strong and other parameters fit, the loan should close.
- The benefits of an HML include: closing speed, less paperwork, sellers can hold back seconds, subordinate liens are allowed to remain on title, flexible LTVs, cross collateralization of other real estate permitted, high risk properties accepted, bad credit usually not a problem, recent bankruptcies or foreclosures are ok, these are short term loans usually with no prepayment penalty, etc.
- MOST LIKELY YOU WILL SEE MORE HML DEALS THAN ANY OTHER TYPE OF LOAN. Thus, be aware.
- In order for an HML to close, the borrower must prove how he is going to make the payments and pay off the mortgage.

IX. IDEAS FOR BROKERS ON HOW TO OBTAIN CLIENTS

- Tell everyone you know that you can assist him or her on any commercial loan need.
- There are many commercial loan opportunities available in towns and cities all across the country. As long, as the loan amount is $150,000 or greater be alert for loan opportunities.
- Look at all past, present and future residential loan applications and tax returns for borrower ownership of commercial properties. On tax returns the Schedule "E" will show you if they own any commercial properties.
- Directly approach business owners in commercial districts in your area. Walk in and ask for the owner.
- Check with insurance agents who write commercial insurance.
- Check with title companies who close commercial loans for borrowers.
- Call apartment management companies or leasing agents to find out who owns properties in your area.
- Check with accountants who file tax returns for their commercial clients. If you can offer better terms to one of their clients, then you may be able to open the floodgates to lots of business.
- Check with attorneys. They may have commercial clients who need a loan.
- Search the internet, the phone book, business directories, chamber of commerce, associations, etc.
- Build a strong referral network, with the goal that potential clients think of you first when they need a commercial loan.

WHY WOULD A BORROWER GIVE A LOAN TO YOU (US) INSTEAD OF A LOCAL BANK?

1. A bank will many times decline a borrower's loan just before the closing for one reason or another. Perhaps the appraisal came in low or the credit score dropped or the bank just changed its mind. Since banks typically have limited alternate loan programs, this could mean that a borrower may have just wasted 30 to 90 days and now he has nothing to show for it. CONVERSELY, had this borrower brought his loan to you and you brought it to *Financial Resources*, there would be more hope for the deal. We have over 100 different commercial loan programs. Thus if we reach a roadblock on one program, we have the ability to change directions and still be able to close the loan.
2. In most cases, a bank loan requires a borrower to provide an annual income statement and a balance sheet on the borrower's business. The loan terms usually dictate that if the borrower's sales, cash reserves, net income, assets, etc, fall below a certain level than the bank can call the loan due in full. This is referred to as a "call feature." This means that even if the loan has a 20-year term the bank can require it to be paid in full. Lots of sleep can be lost with the worry that the bank could ask for all its money back. At *Financial Resources* we do not have any call features on our loans. We obtain a significant portion of our business from borrowers in this unfortunate "called loan" situation. Our loans do not require any type of annual financial reporting. As long as the borrower is making payments, we are satisfied.
3. Two attractive features of using *Financial Resources* are the variety of services we can offer and the <u>flexibility</u> in our loan programs

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X. HUD LOANS ($1,000,000 to $100,000,000)

Apartment Complexes * Nursing Homes * Assisted Living Facilities * Mobile Home Parks

FINANCIAL RESOURCES has special programs to allow you to close Grade "A" apartment complexes, nursing homes, assisted living facilities and mobile home parks at some incredible terms. By giving us your leads on these types of properties, when the loan amount is greater than $1,000,000, we can turn them into closed files, translating into more commissions for your company. We can offer these special loans through a government assisted HUD (Housing and Urban Development) loan program. Although there is plenty of government red tape that has to be dealt with, the end result of a closed loan will be extremely beneficial to the borrower as well as profitable to you.

> Please note: *Financial Resources* makes loans for as little as $200,000 and can do so on apartment complexes, nursing homes, assisted living facilities, and mobile home parks, as well as dozens of other property types. However, the terms on loans between $200,000 and $1,000,000 and other loans outside of this government assisted program, although possibly favorable, will be significantly different from what are listed on this page.

The program provides capital to apartment complexes, nursing homes, assisted living facilities, and mobile home parks for new construction and rehabilitation as well as purchasing and refinancing. All you have to do is fax us a completed Apartment and Nursing Home Loan Application and gather some documents and we will do the rest. We will sign a non-circumvention agreement with you and work directly with the borrower. When the loan closes, you will receive a referral fee of one-quarter (1/4) point (this is the maximum fee allowed). The minimum loan amount is $1,000,000, which translates into a $2,500 commission for you. Thus, if you were to submit a $20,000,000 deal to us, your commission would be $50,000 upon a successful closing.

Summary of Loan Programs:

A. Loan Program for NEW CONSTRUCTION or SUBSTANTIAL REHABILITATION / EXPANSION
(Provides both construction and permanent financing in one loan)

* Loan Amount:	Minimum Loan $1,000,000 in New England, $2,000,000 elsewhere
* Maximum Loan to Value:	90% (Must have at least a 10% cash down payment. NO seller seconds allowed)
* Interest Rate:	6% - 7% Fixed (this is subject to change based on market conditions)
* Term:	40 Years (No Balloon)
* Amortization:	40 Years
* Recourse:	None (no personal signature required, however, the principal must have good credit)
* Assumable:	Yes

B. Loan Program for PURCHASE or REFINANCE
(Long term, fixed rate, no balloon, non-recourse, assumable)

* Loan Amount:	Minimum Loan $1,000,000 in New England, $2,000,000 elsewhere
* Maximum Loan to Value:	85% (no seller seconds allowed) (must have a 15% down payment)
* Interest Rate:	6% - 7% Fixed (this is subject to change based on market conditions)
* Term:	35 Years (No Balloon)
* Amortization:	35 Years
* Recourse:	None (no personal signature required, however, the principal must have good credit))
* Assumable:	Yes

On the next page you will find the APARTMENT COMPLEX AND NURSING HOME LOAN APPLICATION. It is important that you and the borrower follow the instructions carefully and provide us with all of the requested information. An incomplete application will result in a delay in responding to you and your borrower.

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Apartment Complex / Nursing Home / Assisted Living Facility / Mobile Home Park HUD Loan <u>Application</u>
***Financial Resources*: Phone (918) 307-2003 Fax (918) 307-2103**

1) | Date: | Broker name/ phone/ fax/ e-mail: |

2) Loan Type: **New Construction / Acquisition (purchasing) / Rehabilitation / Refinance** *(Circle One)*

3) Apartment Complex Name:

Nursing Home/ Assisted Living/ Mobile Home Park Name:

4) Property Address:

5) Contact Person: Phone/fax/e-mail

6) **Refinance Information**: *(If applicable)*

Property Value: $
Date Property Purchased:
Gross Income per tax return: $
Depreciation per tax return: $
Interest expense per tax return: $
Net Operating Inc. per tax return: $
Cur. Mtg. Pmt:$ Interest rate: %
Mortgage Balance: $
Is there a Balloon or prepay penalty? Yes / No
Original Term/ Remaining term: /
Borrower personal credit score or grade:

7) **Purchase Information or New Construction**

Purchase price or total cost to build: $
Requested Loan amount: $
Down payment amount available: $

Borrower Personal credit score or grade:

Net Operating Income (actual or projected) *circle one*: $
Annual Expenses (actual or projected) *circle one*: $

Important Please attach a typed Executive Summary or cover page that explains the detailed goals of the borrower

8) If Property is: Nursing Home/Assisted Living Facility, total number of Beds? ____________
Apartment Complex total number of units? ____________
Mobile Home Park total number of pads? ____________

9) **Items Required For Refinance, Purchase or Rehabilitation Loans:**
- -The last 3 years of Income and Expense Statements on the property;
- -The last 3 years tax returns on the property. If this is a purchase, we need the SELLER'S tax returns on this property;
- -List of improvements or equity that has gone into or will go into the property;
- -If this is a purchase then we need to see proof of source of down payment;
- -List of repairs or improvements, with a cost breakdown, that are planned for the property;
- -Summary of all mortgages, liens and/or major payables they would like to pay off with the refinance.
- -Credit Authorization form so we can pull credit PERSONALLY on all borrowers who own 20% or more of property
- -Personal Financial Statement on all borrowers who own 20% or more of the company or property

10) **Items Required For New Construction Loans:**
- -Proposed Net Income and Expense Operating Statement on the property for the next 3 years.
- -Purchase price of land, Estimated land value, and Opinion of final value upon completion of building
- -Simple break down of construction costs.
- -Credit Authorization form so we can pull credit PERSONALLY on all borrowers who own 20% or more of property
- -Personal Financial Statement on all borrowers who own 20% or more of the company or property

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PRIVATE MORTGAGES & SIMULTANEOUS CLOSINGS

I. INTRODUCTION: HOW TO MAKE MONEY WORKING WITH *FINANCIAL RESOURCES.*

We will buy mortgages secured by the following types of property: single or multi-family homes, townhouses, land, commercial, condos, and mobile homes with land (**we do not buy notes on mobile homes without land**). We can buy mortgages with no seasoning, and/or weak credit. If the residential mortgage has a good payment history and some seasoning, we can handle very bad credit. Our minimum note balance requirement is $3,000. Our minimum remaining term requirement is one year. We have no maximum note size. Please think of *Financial Resources* for all of your worksheets involving motivated sellers. However, we do not like to make quotes on mortgages that have been shopped on the Internet. Please fax or email your worksheets. Please also see our supplement sheet on how we handle quoting.

FINANCIAL RESOURCES. BUYS SOME MORTGAGES IN A UNIQUE MANNER. In addition to our standard mortgage purchase programs we have a special program for purchasing certain residential and commercial mortgages. If you have a mortgage that fits our special parameters, we may be able to **throw out the yield and LTV guidelines** and you can offer your seller top dollar. Please see the "Secret Revealed" page.

II. SIMULTANEOUS CLOSES

We are very aggressive when it comes to simultaneous closes. We have some structuring techniques that we recommend, enabling you to close more deals. Most of the structures taught today create large discounts to the seller that usually result in a declined offer. The structures listed below will create comparably smaller discounts. If presented properly to the seller the discount becomes less of a factor. If you are marketing for simultaneous closes, we can assist you with marketing ideas and help you every step of the way. Our website www.financialresourcesinc.net has more information on this subject. Just click on the Simultaneous Closing Strategies button and the FSBO Marketing Flyer button.

DETAILS. Our minimum down payment requirement is 5% (see our loan programs for "zero down deals.") However, we prefer a down payment of 10% or more. With overall good credit and a 5% down payment we usually recommend that the seller takes back a first mortgage at 90% LTV and a second mortgage for 5% LTV. This is also known as a 90/5/5 (90% first mortgage, 5% second mortgage, 5% down). We may also suggest a structure such as: 95/5 (95% first mortgage, 5% down payment) or an 85/10/5 (85% first mortgage, 10% second mortgage, 5% down). With good to decent credit we often recommend an 85/10/5, 80/10/10, 80/15/5, or a 75/20/5. Obviously, there are many combinations, and the figures do not have to be in 5% increments. The key is that we will attempt to maximize the quote to you and the seller through proper structuring. We can handle a standard simultaneous closing if the middle credit score is higher than 500. Our minimum house value is $30,000, but prefer $50,000 and above. Our quotes range from 85-92 cents on the dollar if the terms on the note are structured in an ideal manner. Our maximum ITV is 75-85%. On a deal by deal basis we usually recommend that the seller use an interest rate between 8% -10%. However, the seller and buyer can decide together any on the interest rate. Please note that our programs and parameters and minimum credit score requirements do change occasionally. All quotes are wholesale, where the seller, home buyer, or you pay all closing costs for an appraisal and title policy. We prefer the home buyer to pay the costs.

INFORMATION NEEDED FOR A SIMULTANEOUS CLOSING QUOTE: We need to see a credit report (if available), a completed form 1003 application (provided in this package, or a similar form that provides us with detailed information on the home buyer), and a cover sheet that lets us know the sale price and how much the buyer has for a down payment. Once we have an application, we can usually determine if we want to buy this owner financed mortgage within 48 hours. Without an application we cannot provide an accurate, firm quote. However, we will be glad to discuss a hypothetical deal with you. Once the buyer and seller decide on how to structure their deal and the seller has accepted your discounted mortgage purchase offer you should go to the next step. The buyer and seller should sign a Purchase & Sale Agreement between them, and, if necessary, obtain the assistance of a realtor or attorney. We recommend that you have the seller sign a Mortgage Purchase Agreement with you. Please call for additional requirements, or if you have any questions or need assistance.

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MARKETING IDEAS: If you would like to market directly to sellers of For Sale By Owner (FSBO) houses you can download our Microsoft Word file, "FSBO flyer" from our website (www.financialresourcesinc.net). You have permission to customize the flyer with your company's information and give to sellers.

III. *FINANCIAL RESOURCES* BUYS HIGH-RISK, HIGH LTV SECONDS!!!

Presently, there are very few buyers for second mortgages. The companies that do buy seconds typically only do so when the size of the second is no less than 1/2 to 1/3 of the balance of the first. Likewise, most companies will not buy seconds when the first is greater than 75% LTV. We will!!! If the payer has grade "A" or "B" credit, we will buy seconds with a combined LTV as high as 95%. To illustrate, let's say a house sold for $100,000, with $5,000 down, an $80,000 first mortgage (or Deed of Trust), and a $15,000 second. We would make a full offer to buy that second and all qualifying high-risk seconds for between 20 and 35% of the current balance **(20-35 cents on the dollar).** If the amortization period is under 12 years, our offer will be closer to 35 cents on the dollar. If the amortization is longer, perhaps 30 years, the full offer will be approximately 20 cents on the dollar. The mortgage can be unseasoned and as small as $3,000. **Our maximum second mortgage amount we will buy is $25,000. However, our maximum funded amount on a second mortgage is $5,000 due to the high risk (almost gambling risk) on these seconds.** We will also issue partial quotes and multi-staged funding quotes. With mediocre credit and at least a 5% down payment, we will require the note to be seasoned for 4-12 months before we buy it. We can close these mortgages quickly.

With this high-risk second program you can now say "YES, I can help you" rather than, "I am sorry no one buys seconds like that." Your commission is determined in the usual manner, whereby you decide how much you want to make based on our offer. **WE DO NOT WANT TO SEE A WORKSHEET ON A SECOND MORTGAGE until you have given a ballpark estimated quote to the seller. If he is not interested in a full or partial funding amount in the range of 20-35 cents on the dollar, then we will not be able to buy that mortgage.**

IV. BUSINESS NOTES

We buy business notes THAT HAVE NOT BEEN SHOPPED OVER THE INTERNET OR TO OTHER BUSINESS NOTE BUYERS. The quotes are generally the same among business note buyers and thus shopping is rarely productive. If you have a quote from another investor please use their quote when basing your offer to the seller. Many consultants are shocked at the large discounts that result from the high yield requirements that can range from 20% to 40% (not the discount range) depending on the quality of the note. If the seller rejects your offer, our suggestion is to move onto the next note and not continue shopping the deal.

PARAMETERS FOR THE STRONGEST BUSINESS NOTES RESULTING IN THE BEST QUOTES: In order to provide you with the strongest possible quote using the lowest yield requirement the note should be seasoned for at least 2 months, the payer should have perfect credit, the note should be personally guaranteed, and the down payment should be at least 25% of the purchase price. If one of these parameters is not present, then our offer will be significantly lower or we might not be interested in buying that particular business note. Please note that we do not buy simultaneously closed business notes. However, we can make an offer to buy the note and then wait until after the second payment has been paid.

SUGGESTIONS ON HOW TO STRUCTURE A BUSINESS NOTE: (1) The business buyer must have experience in the business he is buying. (2) We suggest that the seller insist on interest rates in the 10 to 15% range or as high as possible in order to reduce the discount. (3) The amortized term should be as short as possible and ideally be between 3 and 7 years. Terms longer than 7 years will result in a highly discounted full purchase offer. We most likely would only buy a partial if the term is longer than 7 years. (4) Ideally, do not include a balloon in the note for it will not help increase the offer. (5) We will ultimately need income & expense information on the business from the seller for the previous 2 years. Thus, we must see tax returns from the seller for the previous 2 years when he owned the business.

POTENTIAL ISSUES THAT SHOULD BE ADDRESSED UP FRONT: (1) Make sure that the note is personally guaranteed. This will be the case if the payer signs with just his name and not with words like, "President of the Company" nearby. (2) Confirm the seller has the original Note (3) Make sure there is a signed Security Agreement & UCC-1 (4) Make sure the seller can prove that the payments were paid on time by providing us with copies of the payer's checks or the seller's deposit slips. (5) Make sure the seller can prove that the full amount of the down payment was paid. Typically, providing a copy of the down payment check or seller's deposit slip is sufficient. (6). Make sure this is a first position note.

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V. PRIVATE MORTGAGE PURCHASE SECRET REVEALED (Buy-While-Refi program)

(Don't miss out, read these pages thoroughly and think of your dead deals that can be revived)

This document will provide a special link between the private mortgage business and loan originations. As far as we know, this exact concept has never been put in print by another investor. However, this is not about residential loans. Instead, we want to reveal to you a secret that we have been using for years. We feel it is time to reveal this secret in order stretch the traditional boundaries of the private mortgage business. This innovative purchase program can save many of your deals that ordinarily would not have closed. This means that you can make more money. The program allows us to throw out the yield requirements and make significantly higher offers to you and subsequently the seller.

By now everyone has read many articles on how to market for seasoned private mortgages, how to negotiate with sellers, how to work with mortgage buyers, and many other aspects of private mortgages. We do not wish to change any of the traditional methods that you are accustomed to in regards to private mortgages. Nor do we want to imply that this plan is any better than the traditional purchase. Instead, we are going to present just one more way that you can buy a seasoned private mortgage. We know there will be some critics who will doubt that this works. Therefore, it is important to note that this plan will only work in about 50% of your deals. The other 50% of the time it will not work. We call our program the, **"buy-while-refi"** plan.

When we receive a seasoned mortgage worksheet from a consultant who wishes to receive a quote, we usually make a traditional offer. We then look closely at the worksheet and ask the question, "Can we offer the payer a better deal?" If the answer to this question is, "yes," then there is a good chance our "buy-while-refi" program will fit this transaction. If the answer is, "no," then we make a traditional offer and move on to the next worksheet.

Example #1: To illustrate, let's assume a single-family owner occupied house sold for $100,000 two years ago. The buyer of the house has good credit, a good job, put $5,000 down, and the owner took back a $95,000 mortgage. The term is 360 months, the payment is $697.08, the rate is 8%, and there is no balloon. The current balance would be $93,346 with 336 payments remaining. The typical investor's full offer on a mortgage like this would fall between $81,827 at a 9.5% yield, and $72,500 at an 11% yield. We will assume the investor's offer to be $76,925, which is a 10.25% yield. If you wanted to make a $1,000 commission, you would offer the seller $75,925. Given this example, the discount to the seller would be $17,420. There is a very high chance the seller will reject your offer and you will need to put this deal in your dead file. Now, what if you could offer the seller perhaps $85,000 to $88,000 through our special program? The "buy-while-refi" program gives you one more chance to save this deal. Do you think you could save a few of your deals this way?

How we can help you save the deal exemplified above: Assuming the seller accepts your tentative quote of $85,000, the transactional negotiations shift to the payer. We require direct contact with the payer. We call him, and explain who we are, and why we are calling. We explain that our goal is to offer him a better deal than what he has now. Assuming he is cooperative and still has good credit, we might be able to offer him the following restructured terms: reduce his balance by $1,000 to $92,346, keep his 30 year amortization, lower the interest rate, lower his payment to perhaps $553, and have no closing costs. His credit rating would improve since his new mortgage would be reported to the credit bureaus. He would also have no more contact with the seller. Logically it would be foolish to say no to this proposal. However, many people do say no. This is one of the reasons why our "buy-while-refi" plan only works 50% of the time.

Example #2: A single family, owner occupied home sold for $120,000 with $20,000 down. The $100,000 mortgage has the following terms: 20 year amortization, 7.5% interest, $805.59 payments, and a current balance of $98,523 with 232 payments remaining. Traditional offers might be in the $82,500 range at a 10% yield. Our "buy-while-refi" program might result in an offer as high as $93,000. If you checked the yield on this you would find it to be 8.29%. The program is not based on yield, thus an offer like this is possible. The payer has to be cooperative and like our proposal. If the payer does not like any of our proposals and the seller has already rejected your traditional offer, then the deal is dead. At least you tried your best. Now it is time to move on to the next deal.

Example #3: A single family, owner occupied home sold for $100,000 with $5,000 down. The good credit buyer assumed an existing $60,000 first, and the seller took back a $35,000 second. The terms on the first and second both have 8% interest rates for 30 years, with no balloons. The note is seasoned for 1 year. The traditional offers will probably be limited to a max combined LTV of 75%. Thus, the resulting full offer for the second mortgage would be no more than

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$15,000. Assuming the seller does not want to sell a partial, and he is appalled by your low offer, the deal is dead. But it does not have to be dead. With our "buy-while-refi" plan we might be able to offer you $25,000 for the second mortgage, through a refinance of all mortgages. Of course, this is subject to the same conditions mentioned above.

Example #4, this time the payer has bad credit: Single Family, O/O house with a value of $100,000. Payer owes $99,000; interest rate is 10%, for a remaining 29 years. Four of the payer's twelve payments have been over 30 days late. The seller is desperate and will only take a full offer. The best offers you have been able to get have been somewhere between declines and $40,000-50,000 partials. With our "buy while refi" program, we may be able to offer you as much as $75,000 for a full purchase. Of course, this is subject to the same conditions mentioned above.

What Are We Actually Doing? We are attempting to refinance the payer on the note while we buy the mortgage from the seller. This creates a pure win-win situation. The seller gets significantly more for his mortgage, you get to save a deal and make money, and we get a new loan. The payer benefits in perhaps a number of ways, by lowering his payment, lowering the interest rate, shortening the term, lengthening the term, reducing what is owed, or perhaps removing an upcoming balloon. Depending on the situation, we do not advise telling the seller what we are doing in the beginning. The program is rather complex for the typical seller, and you might scare him away. Eventually, either we will explain the program to the seller or you will. This program will not only save deals, but it can also put extra money in your pocket. There is also a bonus to this, "buy-while-refi" program. If the seller accepts your original offer and we can do our program, you may be able to make a lot of extra money. However, the program is complex, due to the necessary involvement of another party, the payer. This program will not work in all cases but will add to your options.

STEPS TO TAKE WITH OUR "BUY-WHILE-REFI" PROGRAM:

1. You should get your regular quotes on your worksheet including our regular quote, subject to the normal yield and LTV requirements. When you receive a "buy while refi" fax along with your worksheet you will know that you have another option. Keep this fax with your worksheet. **If we included a possible "buy-while-refi" offer on your worksheet it is important that you do not make your offer to the seller based on this figure.**
2. You should present your offer to the seller as you always do. If he ultimately rejects it, now it is time to move to plan-B, which is our special program. Tell the seller that you work with a company that may be able to offer him/her significantly more. However, the company will need to speak directly with the payer to gain more underwriting comfort about his mortgage. If the seller refuses to give permission to call the payer, then our special program will not work.
3. Assuming that the seller gives permission to call the payer, we will then call the payer and introduce ourselves. We will explain who we are and what we can do for him. We will ask him questions to see if he qualifies. If he does not qualify, then our program will not work. If he likes what we have to offer and desires to proceed, we will make you an offer to buy the mortgage.
4. You then go back to the seller with your revised offer that is based on ours. If accepted, get a signed purchase agreement and request the typical due diligence information from the seller.
5. Assuming that you send us the package, we will continue processing the file. We will continue to work directly with the payer, and we may ask for your permission to work directly with the seller as well.

We are actually making the payer a new loan. Assuming you are not a licensed mortgage broker, it is important to point out that you will not be involved in this loan process. You are not earning any points or loan fees. Your commission is earned in one of two ways, which will be determined on a case-by-case basis. (1) The usual manner, in that the seller's mortgage is being discounted and you decide the commission; (2) we may have to treat this as a straight refinance and your earnings will be discussed at that time. Please note that in about 50% of the cases this "buy-while-refi" program will require that the seller or the consultant pay for the appraisal.

TYPICAL MORTGAGES WHERE THE PROGRAM WORKS AND DOESN'T WORK: This program typically works best when the first mortgage is greater than $75,000. It works with residential and commercial mortgages. The more seasoning the higher the success rate, however, only one month of seasoning is required. The existing note interest rate should ideally be higher than 8%, but lower rates will work. The longer the amortization period the more dramatic the program effect will be. Good credit works best, but we can also work with bad credit or even people in foreclosure. It works great with some second mortgages. The program works best if the difference between the current balance and your typical offers is large. The program does not work if the seller wants a partial or any other offer other than a full purchase. It does not work with business notes, land, portfolios, or any non-real estate secured assets. <u>However, we will continue to buy these types of debt instruments, just not with this program</u>. Please call for more information.

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RESIDENTIAL MORTGAGES

I. INTRODUCTION: HOW TO MAKE MONEY WHEN SOMEONE ASKS YOU FOR A LOAN

Sooner or later all cash flow professionals are asked if they can make someone a loan to buy a house or refinance an existing loan. Traditionally, consultants have been trained to say "no" to such a question. We at *Financial Resources* want to teach consultants to say, "YES," under the correct circumstances. Now with our help you can make money on these requests. *Financial Resources*, a New Hampshire corporation, is a multi-faceted full service mortgage company founded in 1989 by Scott Farah. The headquarters is in Meredith, New Hampshire and there are branch offices in Tulsa, Oklahoma and several other states. For cash flow consultants, all inquiries regarding residential loans should be directed to Cindy Buckmaster in the Tulsa, Oklahoma office at phone (918) 307-1949, fax (918) 294-1913 or email Cbuckmaster@franh.com

The typical cash flow consultant does not hold a mortgage broker license and therefore cannot market and solicit for loans. However, sometimes people will respond to an ad that you placed for another purpose. Perhaps your advertisement said, "We buy mortgages." A reader might incorrectly assume that you also make loans. Occasionally, you might even be in a conversation with a friend, relative, or business acquaintance who might ask you if you can get them a mortgage. We want consultants to then say, "I can not make you a loan, but I work closely with a company who can" or "we do not make loans, however, I can refer you to a company that does." By making such a statement, or any other close version of these statements, you should not be in violation of any state mortgage brokering rules. As you continue reading you will learn more about loans. First, we will deal with how to refer a loan to us.

II. STEPS TO FOLLOW WHEN REFERRING A LOAN ORIGINATION

1. **Read all pages on residential loans in this package very thoroughly**. Upon your initial contact with a potential borrower, find out the following information: name, address, home and work phone numbers, purchase or refinance, sale price of house, the amount they have available for a down payment if they are purchasing a house, and their opinion of their credit. If a **bad** credit borrower doesn't have at least 5% down, then the likelihood of us being able to make them a loan is reduced. However, if the borrower has **good** credit and the seller is willing to pay closing costs, you should pursue the loan. Please refer to our 100% program later in this package. Our minimum loan size is $75,000.

2. Send the borrower one of our loan applications to fill out. Once completed, please mail or fax the loan application, including the information from #1 above, to our Tulsa office at PO Box 470762, Tulsa, OK 74147. Fax (918) 294-1913 to the Attention of Cindy Buckmaster. **Please include the Loan Application Supplement cover sheet that describes what the borrower is trying to accomplish.**

**If you would prefer that we contact the borrower and obtain the loan application directly, please let us know. **

3. Upon receipt of this application we will underwrite the request. Then we will determine if we can make them a loan, and if so, the applicable rates and terms. It will take 24-72 hours to respond to this request.

4. In some cases you can present the terms to the borrower. However, we would strongly prefer that we present the terms to the borrower. Once the borrower accepts these terms, we would need to have direct contact with the borrower to begin processing the loan and ultimately close.

5. **HOW MUCH WILL YOU MAKE ON A LOAN?** This will be discussed on a case-by-case basis, for there are many variables. We prefer to discuss this after we have reviewed the borrower's application.

The contact person at our Tulsa office is Cindy Buckmaster, phone number (918) 307-1949 fax (918) 294-1913. Please call to discuss odd cases; otherwise, please just send a complete loan application and the Supplement cover sheet according to the directions listed above. If necessary, please include a letter that explains any odd circumstances that you may have discussed with the borrower that might help us in our underwriting.

III. TYPES OF RESIDENTIAL LOANS *FINANCIAL RESOURCES* CAN MAKE

The following is a list of residential loans that we can make. We are continually developing new programs. Thus, this list is constantly changing.

-Conventional and VA First mortgages (min. loan $75,000) – **(no second mortgages)**
-Loans with low (5%) down payments for all credit grades in most cases
-100% financing loans for purchases or refinances to people with overall good credit
-High debt to income ratios from 45 to 60%
-All credit grades (A through D)
-LTVs and CLTVs between 65% and 100% for all credit grades
-LTVs from 97% for purchases and refinances for people with perfect credit and verifiable income at low rates
-Self-employed borrowers with no income verification, who have been self-employed for as little as one day
-NO DOC loans where the loan application is almost blank. We don't verify income, assets or employment.
-Loans to people with strong credit up to 95% LTV, without verifying their job, their assets, or their income
-Cash-out refinances up to 100% LTV for strong credit (instead of a second mortgage)
-Debt consolidation refinances
-FORECLOSURE BAILOUT Loans up to 65% LTV (additional info pages are available upon a faxed request)
-Construction loans of $100,000 and higher to homeowners who want to build a house
-Loans on rental properties and second homes
-Loan amounts from $75,000 to $4,000,000
-Interest only loans. Thus the payment on the mortgage will be lower then the standard amortized mortgage.
-Doublewide mobile home (must be on its own land) loans. We do not make loans if there is no land.
-Unique property loans such as: Log cabins, earth homes, dome homes, row homes, etc.

The information that follows provides details about residential loans in general. The purpose of this information is two-fold: (l) to show consultants an opportunity that they might not have known existed, (2) continuing education for consultants that are aware of the opportunity, and are making money. We hope this information will increase your business and broaden your knowledge.

CONFORMING LOANS: You should know the basics of obtaining a residential mortgage loan. There are many types and categories of loans. To keep it simple we will divide loan types into Conforming loans and Non-conforming loans. Conforming means meeting all of the underwriting standards set by the governmental entities Fannie Mae or Freddie Mac. Conforming loans can be FHA, VA, or Conventional. Non-conforming loans do not meet Fannie Mae Guidelines. Conforming loans are the loans given by banks and the traditional, large, household name mortgage companies. The rates on conforming loans are the rates that you see advertised in your newspapers, television commercials, and the financial market news. Interest rates for the standard 30 year mortgage; typically range from 5.5% to 8% depending on the current economic conditions. Banks usually charge from 1/2 to 2 points for such a loan. The people who qualify for these loans typically have excellent credit, a good job for at least 2 years, low debt to income ratios, and money in the bank to cover the down payment and closing costs. People that fit these standards can qualify for loans up to 95% and 100% LTV, and use their own money for a down payment. The profit for banks and mortgage companies on this type of loan is razor thin due to very intense competition. *Financial Resources* makes this type of loan. We can compete with the banks both on rates and points charged. Unfortunately, we do not see as many loans of this quality as we would like to see. Likewise, you should not expect to receive many phone calls from people that fit these standards. These people usually go straight to the banks and do not need your help. If you do receive a call or know someone who wants to go through you for this type of loan, we can help you. You can refer them to us. Our minimum loan size is $75,000 (this is not our mininum for private mortgages). Consultants can choose their level of involvement in the loan process. It will be worth your time spent on any loan that closes, whether you just give us a name, or if you stay involved from beginning to end. Many consultants enjoy the learning process of what it takes to close a loan. Other consultants will just choose to refer a name.

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NON-CONFORMING SUB-PRIME LOANS: It is important to understand what "non-conforming" or "sub-prime" (the same meaning) loans are and how this type of loan can help your business. This is where consultants can make more money when compared to conforming loans. Once a bank or mortgage company rejects a borrower, he will often start searching for an alternative loan source. It is this type of loan that represents approximately 80% of the residential loans that are referred to us. Borrowers are rejected by banks and mortgage companies for many potential reasons. Some of those reasons are as follows:

-Bad credit as low as a 500 score or No credit
-High debt to income ratios
-Not enough or No down payment
-No money for closing costs
-Erratic job history
-Self-employed and the income cannot be verified
-Self-employment for less than 2 years
-Two to four unit rental properties
-Property is residential but used for light commercial
-Rural properties
-Borrower owns too many rental properties
-Construction loans & Cash out refinances
-Borrower in foreclosure and about to lose their home
-Borrower has a recent bankruptcy
-No income, no assets, no employment, but has good credit and a 10% down payment

Most of the problems on the above list will result in a declination by a bank. However, it should be noted that some banks are more flexible than others and might actually make a loan to someone with these types of problems. Some of the above problems are still subjective and can vary with different underwriters' opinions. This list is by no means comprehensive. There are many other problems that can arise. The key to success is recognizing the problems early and finding ways to overcome them. *Financial Resources* has ways to overcome every problem mentioned on the above.

Some loans are just not possible. Here are three examples of some loan requests that were declined by other lenders <u>and</u> *Financial Resources:* (1) A cash out refinance request for person with bad credit, lives on disability income, and his mortgage payment would have been greater than his income. (2) A purchase loan request for someone with no job, bad credit, and no down payment. (3) A purchase of a 1962 single wide mobile home that is resting on dirt, the borrower has bad credit and no down payment.

Sub-Prime loans are made at lower loan to values and at higher than normal rates. Typically, LTVs can range from 65% to 100%. There are exceptions at both ends. Interest rates on sub-prime loans range from 8% to 14%. *Rates are lower and LTVs are higher when the borrower has better credit, is employed, and can verify income. Rates are higher and LTVs are lower when the borrower has bad credit, is self-employed, and cannot verify his income.*

You can refer them to us. Our minimum loan size on sub-prime loans is $75,000 (this is not our minimum for private mortgages). Consultants can choose their level of involvement in the loan process. It will be worth your time spent on any loan that closes, whether you just give us a name, or if you stay involved from beginning to end. Many consultants enjoy the learning process of what it takes to close a loan. Other consultants will just choose to refer a name.

IV. WHAT TO DO WHEN YOU RECEIVE A PHONE CALL FROM SOMEONE REQUESTING A LOAN:

We just discussed the details of conforming mortgages and non-conforming mortgages. Our ultimate goal for the typical cash flow consultant is to be able to pre-approve and close a loan request. This knowledge will serve you well, in making money on loan requests. This knowledge will also help you develop skills that will help you with other cash flows. Although most cash flow consultants are not currently licensed mortgage brokers, we hope that some cash flow consultants will go beyond the basics taught here and will consider obtaining a license and perhaps becoming a branch office for *Financial Resources.*

Monday morning your phone rings and it is a person named John. John saw your ad for, "we buy mortgages," and assumed that you could help him obtain a mortgage to buy a house. John complains about banks and is very enthusiastic about how you can help him. John has just given you two clues that he will not qualify for the traditional loan. One clue is that John is calling you and not another bank. The second is that he does not like banks. At this point you need to tell John that you are not a mortgage broker and cannot make him a loan, but you work closely with a company who can. At this juncture you have two options: (A) You could ask John for his full name, address, and phone numbers with the best times he can be reached. Then tell John that you will refer his name to *Financial Resources.* Tell him that someone from

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Financial Resources will call him within the next 48 hours; (B) you could tell John, that although you can not get him a loan, you would like to ask him some basic questions to see if he can get a loan from *Financial Resources*. If you chose the second option, which will add to your experiences as a cash flow consultant, you should tell John there are six questions that you will need to ask him. The answers will be passed on to *Financial Resources* and someone will be calling him within the next 48 hours if you think that *Financial Resources* can help him: (1) Were you turned down at a bank and why? (2) What is the price range of the house you would like to buy? (3) How much do you have available for the down payment & closing costs? (4) What is your credit like? (5) How long have you been continually employed either on the same job or in the same field? (6) What is the total combined gross monthly income for yourself and your co-borrower (if there is a co-borrower)?

THE DOWN PAYMENT: Let's deal with the fine points of some of John's potential answers to the above questions. The answer to question 1 will help steer your focus onto one or more of the other five questions. Keep the answer to question 2 in the front of your mind. Question 3 is often the key question to a loan request. Many loans never get off the ground due to the lack of a down payment. The magic percentage to always remember is 5% when you are speaking with someone who has less than perfect credit. If John says he has $5,000 or more to put down, and he wants to buy a $100,000 house, then you are on the right track. If John says he has no money available for a down payment, we would advise that you speed up the conversation and the questions. If John's answers to questions 4, 5 and 6 are also weak, then you should politely tell John to call you when he has his 5% down. If John's answer to questions 4, 5 and 6 are strong, then perhaps he can still qualify for a simultaneous closing or a 100% loan. Zero down deals on people with good credit can be done. Please see the enclosed page for more information on 100% financing loans.

Assuming that John says he has 5% down, you now need to find out where it is. There are many possible answers. The common answers are: (1) I have it saved up in the bank; (2) I have it saved up in cash hidden away; (3) It will be coming from my relative as a gift; (4) I am still working on saving it up, I should have it all in the next few months. Each one of these answers will steer you in a different direction. Answer 1 is the ideal; you should proceed to the next question. Answers 2 and 3 create challenges for a loan but can be overcome; we just need to know this up front. Answer 4 is the equivalent of not having a down payment and you should proceed as outlined in the above paragraph.

CLOSING COSTS: Understanding all aspects of closing costs when it comes to underwriting a loan is essential. The typical closing costs are as follows: appraisal fees, title fees, recording fees, attorney fees, document preparation fees, closing fees, underwriting fees, and loan origination fees also known as points. One point equals one percent of the loan. There are several other fees. Not all loans have all of these fees. Likewise, not all loans have the same size fees. In some states, for example, the title costs are higher than others. Typically, the weaker the loan is, the higher the risk, thus the closing costs are higher. The size of the loan is a determining factor as well. A $75,000 loan will have lower closing costs and points than a $400,000 loan. Assuming that most of the loans that you will see are between $75,000 and $200,000, a good rule of thumb to follow is that closing costs will run about 3% to 5% of the loan amount. Add the cost of a typical homeowners insurance policy for a year and you have the approximate costs.

A common question that arises regarding closing costs is, "Can I finance the closing costs into my loan?" The simple answer is, no. The more complex answer is, yes. Let's assume that John is buying a $100,000 home, has $5,000 to put down, and he has qualified for a 95% LTV loan of $95,000. The total closing costs would be approximately $4,000. If this $4,000 were added to the $95,000 loan, the end loan would be $99,000 or 99% LTV. This of course would change the loan type to a 99% LTV loan, which would affect the rate and other aspects of the loan. Thus closing costs are in most cases not added to the loan. There are several exceptions to this that will be dealt with on a case-by-case basis. As mentioned above, there is a more complex way to "finance in the closing costs." If the house will appraise for more than the agreed upon sale price of the home, the seller can then bump up the sale price of the house. Subsequently, the seller can then pay the closing costs for John. The end result is that John pays more for the house than planned, but he does not have to come up with as much cash. Likewise, there is no net effect on the seller, since he will walk away with the same amount of cash and he got to sell his house.

It is important to understand the details on closing costs because many borrowers do not have enough cash saved up for the down payment and closing costs. The banks will most likely not tell John about this option; thus, John will not be able to buy a house. This is one of the many ways you can save the day for John.

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HOW CREDIT RATINGS AFFECT A LOAN: Question 4 deals with John's credit rating which will play an important factor in the type of loan John will ultimately obtain. *Financial Resources* can handle loans for people with all credit grades from A through D. Credit grades are like school grades, where an A is the best and a D is the worst. Another way to look at credit is by the credit scores. We can help borrowers with credit scores between 500 and 850. Most likely John does not have grade "A" credit or else he would not be calling you. Credit is probably the biggest reason why people are turned down for mortgages from the local banks and mortgage companies. Thus, it is important to find out what John's actual credit is like. If you ask John what his credit is like, he will probably say it is good. Over the years we have come to expect that some people will lie about their credit rating, perhaps as much as they lie about their driving records. There seems to be a misguided notion that if a borrower says he has good credit, you will believe him and not check his credit. This, of course, is not how it works. One method of determining a borrower's truthfulness is by judging the strength of the adjective they use to describe their credit. If a borrower says his credit is strong, stellar, perfect, impeccable, etc., than he is probably telling the truth, because he is proud of his credit. Whereas, if a borrower says he has "good" credit you should consider probing deeper. Of course many borrowers will tell you they have bad credit. You should get an overall history of the bad credit. Many borrowers will delve deeply into the problem that caused the credit glitch and explain that it was not their fault. The cold reality is that the glitch is on their credit, and that the story at this point is not very important. If they had a bankruptcy, repossession, or foreclosure, it is important to find out when it was completed and when it started.

As you know, people with perfect grade "A" credit can qualify for the coveted 100% and higher LTV loans. *Financial Resources* can also help people with grade "D" credit obtain a loan at 65% LTV. All of the other credit grades in the middle usually qualify for LTVs between 100% and 65%. Remember that we are talking about loans for people who want to buy a house. It is a pretty safe bet that someone who has grade "C" credit, who qualifies for an 80% LTV loan, does not have 20% of the purchase price in cash as a down payment. Thus, they only have a couple of options. One option is that they must have at least 5% down of their own money that has been saved in an account for the past 1 to 2 months. The seller can take the remaining 15% back as an owner financed second mortgage. Another option would be to find a gift source that would give the borrower the down payment. Finally, any other combination of down payment, gift money and owner financing will work as long as at least 5% comes from the borrower. There are numerous exceptions to these generalities. The exceptions would be too lengthy to mention here.

EMPLOYMENT: Question 5 deals with the length of continual employment, in general and in the same field. Most borrowers are either employed, self-employed, or have some form of passive income like social security. If the borrowers are employed, or self-employed, you should find out how long they have been in the same field. You are looking for at least two years of continuity for all borrowers on this mortgage. If a borrower is self-employed, we will ideally need to see two full years of tax returns that show he is self-employed. Many borrowers will leave a job to become self-employed. If the time of self-employment is under two years then most banks will turn a borrower away. *Financial Resources* has some special programs that a borrower might fit into if this is the case. The key for passive income borrowers is that the income should be steady, verifiable, and will continue indefinitely.

MONTHLY INCOME: Question 6 deals with the gross monthly income for each borrower. If a borrower is employed, it is easy to find out the gross income, including overtime, for the month. If the income fluctuates, then you can ask what the year to date income is, and divide by the number of months since the beginning of the year. With passive income it is easy to determine the gross income. Self-employment income is not as straight forward. There are several calculations that are used to calculate self-employment income, which we will not explore. For the sake of simplicity, the idea is to find out what the borrower's adjusted gross income was for the past two years. This figure can be found at the very bottom line of the federal tax form 1040 on page one. We need to know what the figure was for the past two years. In many cases, this number will not be indicative of what their actual income is for various reasons. This means that a borrower cannot verify his income. This is perhaps the second biggest reason why a borrower is turned down at the local bank. *Financial Resources* can still help a borrower who cannot verify his income. There are additional issues to be dealt with, such as the borrower's debt to income ratios. We will handle these issues once we begin working with the borrower.

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V. MAKING MONEY ON RESIDENTIAL REFINANCE LOANS

There are numerous reasons why people would want to refinance their mortgage. One of the most common reasons is to lower their interest rate and monthly payment. Perhaps they are currently paying 10% interest and now they are enticed by the nice low conforming loan interest rates in the 5.5% to 8% range. Perhaps they want an "interest only" loan with ultra low payments. Others refinance in order to switch from paying an unpredictable adjustable interest rate to a stable fixed rate. Some people refinance because a balloon is coming due on their private mortgage. Another very common reason to refinance is to take cash equity out of the house. People often use the cash taken out of a house for debt consolidation, home improvements, or personal expenses. The less fortunate may have to refinance in order to prevent a foreclosure on a delinquent mortgage.

Financial Resources can help a borrower with all of the above needs. The purpose for making you aware of the details of refinance loans is to prepare you for the future phone calls that you will receive. Let's explore the options available for the various reasons that people refinance.

What if a borrower wants to lower his interest rate? A general rule of thumb for refinancing at a lower interest rate is to do so only if the rate will drop by 1% to 2% or more. There are exceptions to this rule that can only be determined on a case-by-case basis. For example, if the current market rates are in the 5.5 to 7% range then it probably won't make sense to refinance if their existing rate is 6%. Thus, if you talk to someone with a rate like this and they want to refinance solely to lower their rate, you should explain to them that the closing costs would most likely exceed the benefits. Unless they have a special circumstance, their rate is adjustable, or a balloon is due, you should not encourage them to refinance.

Most people who want to obtain a lower interest rate have a good idea about their credit rating. As you know, only people with perfect credit can obtain the nice low 5.5% to 8% fixed interest rates that you see advertised. Occasionally, we still see the borrower who just had a bankruptcy last year and hopes to lower his rate to 6%. Don't waste your time with these people. Please keep in mind that the people with perfect credit are most likely calling all the local lenders and shopping for the lowest rate. *Financial Resources* is very competitive on these perfect credit deals and we can help your clients. However, borrowers who are shopping for rates, usually like to deal with the local banker on a face-to-face basis. Most of the deals we see are a result of a borrower who has other needs besides lowering the interest rate.

Perhaps a borrower wants to refinance in order to get cash out of his home and lower the interest rate. Assuming the cash out aspect is the primary reason for refinancing, it may make sense to make them a loan even if the rate is only slightly lower, or perhaps even higher than their current rate. The factors that affect a borrower's ability to obtain a cash out loan or any refinance loan are the traditional factors that affect any loan. The borrower's credit rating, employment type, income verifiability and the status of the property are some of the factors that will determine the LTV and the interest rate. Here is a chart that will give you a general idea of the products available. Full doc, means the income is verifiable; Stated Income, means that the borrower does not need to provide any income proof.

Strong credit (scores 620-800+)	Decent credit (scores 580-619)	Bad credit (scores 500-579)	Full doc	Stated Income	*O/O*	*Rental*	LTV qualified for
X			X		X		95-100%
X			X			X	90-100%
X				X	X		80-100%
X				X		X	75-95%
	X		X		X		90-100%
	X		X			X	75-90%
	X			X	X		75-90%
	X			X		X	65-80%
		X	X		X		65-90%
		X	X			X	60-80%
		X		X	X		65-80%
		X		X		X	60-70%

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VI. MAKING MONEY ON 100% FINANCING LOANS

Most people who are buying a house would probably assume that they must have a down payment if they are going to obtain a loan. In times past this was the case. However, *Financial Resources* routinely makes 100% LTV loans to borrowers who wish to finance 100% of the purchase price of the a house. This 100% LTV loan does not require a down payment. This opens the possibility of home ownership to many people who have not been able to save money for a down payment and closing costs. The loan is a straight 100% loan, or an 80% first mortgage along with a 20% second mortgage that totals 100% financing. **There is no seller 2nd or seller financing in this type of loan.**

You might think that a person would be required to have perfect credit. Fortunately this is not the case. The program is rather liberal. The parameters are as follows:

1. A person can have up to one 30-day mortgage late during the past 12 months. They can have up to 6 months of rolling 30 day late payments. This means that once they got 30 days behind, as long as they kept making payments every month, they are technically only late once.
2. A borrower can still qualify if they have a few 30-day late payments on their consumer debts, such as revolving credit cards, installment loans, or student loans, but the overall picture must be positive.
3. No collections, judgments or charge-offs within the past 12 months, except for isolated incidences, disputed medical claims or amounts under $1000 with compensating factors.
4. All credit is current at the time of application.
5. There are at least 3 or 4 good items of recent credit showing on the credit report.
6. The borrower must have at least a middle credit score of 580-620 dep~~ending on several~~ variables. The higher the credit scores the lower the interest rate.

What does this mean? It means that a person who had lots of prior collections, charge-offs and late payment problems in their past can still get a 100% LTV loan. Obviously, this program is not going to fit everyone, but it clearly opens up home ownership to a lot of previous credit-troubled people.

A few other details need to be mentioned before we explain how you can make some money with this program. The debt to income ratio can be no higher than 50%. Thus a family that is making $4,000 per month in verifiable income would have $2,000 ($4,000 x 50%) available to cover all debts. This would include the new mortgage principal and interest, 1/12th of the real estate property taxes on the new home, 1/12th of the home owners insurance on the new home, and all other monthly debts (i.e. car payment, credit cards, student loans, etc.). If their debt to income ratio exceeds 50%, they will need to find a less expensive house.

The interest rates on this program can range from 6% to 11% depending on the current market rates and how close to perfect credit the borrower has. For the borrowers who have less than perfect credit but still qualify for a 100% loan, the higher rate reflects the additional risk taken with the lack of a down payment. Some people with slightly less than perfect credit will get hung up on this higher rate because they want the nice low 5.5% to 8% market rates. We tell them we understand and that if they have a 5% down payment and money for closing costs, then this 100% program is not for them. We have other programs available that might help them. There are many other benefits to this 100% loan that can be explored on a personal case-by-case basis.

There are closing costs and points charged. The seller of the house should ideally be willing to pay some of these costs; this can be up to a maximum of 3% to 6% of the house sale price, depending on the loan type, credit score, property type, etc. The closing costs that exceed 3% to 6% of the sale price will need to be paid by the home buyer. These costs will be for the appraisal, title work, attorney's fees, one year of homeowners insurance, and a few other expenses. We estimate that a home buyer should have approximately $1,000 to $3,000 saved up for at least 60 days, in order to buy a $100,000 house. Obviously, the cost estimate will depend on the house purchase price and will fluctuate from state to state.

Some of you might feel a bit overwhelmed by the above parameters. Others are glad we listed the parameters so that you can weed out people that don't fit the program. Whatever your situation, we will be glad to work with you on any referrals that you send to us.

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VII. A PRACTICAL WAY TO BEGIN MAKING MONEY ON LOANS

Consultants often ask us how they should get started on loan referrals. The first thing is to refer back to the beginning of the residential loan section of this package to make sure you understand what you can and cannot say. The second thing you should do is to re-read the page in this package on Residential Refinance Loans. Now you can get started.

There are certain segments of the business community that have a steady flow of clients (borrowers) walking through their door. It is important to remember that a steady flow of borrowers means a steady flow of income in your pocket. Some business examples include: home improvement contractors, mobile home dealers, real estate agents, CPAs, financial planners, attorneys, builders and more. Consultants who understand what the driving forces are behind these businesses can then approach these businesses and offer solutions for their clients. Additionally, you need to know why a business would be motivated to refer borrowers to you and ultimately *Financial Resources.* We will address the motivations for each of these referral source professionals (RSP).

Home Improvement Contractors: They meet with borrowers who wish to improve their house in some manner such as; siding, a new roof, new windows, remodeling, an additional room, etc. These contractors usually have access to a group of lenders that offer second mortgages or unsecured loans. The interest rates are usually quite high. Additionally, lenders do not approve many of the contractor's clients for one reason or another. This leaves the contractor frustrated because he has a customer who wants to spend perhaps $15,000 on his services, but can't qualify for a loan. The customer is also frustrated since they can't get the work done to their home. Here is where you come in. If you approach contractors and inform them that you work with a company that can make FIRST position loans to their customers, you will get them interested. The key is the cash out refinance that is explained in the refinance page of this package. We can make first mortgage loans to a larger group of borrowers than a second mortgage lender can. Let's assume that a borrower's house is worth $100,000 and they owe $60,000. Perhaps we can pay off this $60,000 and make them a new $80,000 loan. We can free up cash for the home improvement and roll in all of the closing costs into one new first mortgage. There is a gold mine waiting for you with contractors. If you had to pick one RSP to focus on, this would be the one.

Mobile Home Dealers: A loan on a mobile home can be more difficult to obtain than a loan on a traditional house. Thus many dealers have lots of dead files that did not turn into a sale. We can help them close more sales by offering aggressive loans to their clients. There are some parameters that must be mentioned to the dealer. **We can ONLY make a loan to a borrower who is buying a double wide mobile home & land together**. We can help many borrowers with grade "A-C"credit. However, you need to mention to the dealer, that on loans where the borrower has weak credit and only a 5% down payment, we will need the dealer to hold back an owner financed second mortgage. If the dealer is not willing to hold back a second mortgage, and the borrower does not have a down payment, then we will not be able to help that borrower. We have to be cautious when working with mobile home dealers because they have a tendency to refer all of their junk deals that only consume time. We can prevent the flow of junk deals by requiring that the dealer include a 1003 loan application and the credit report on all deals that they refer.

Real Estate Agents: Why you would talk to real estate agents is self-explanatory. You should keep in mind that they are most likely already referring their clients to a mortgage company. Thus you need to offer them reasons for sending their clients to you and *Financial Resources.* The best way to start is to ask the real estate agent for her turndowns, specifically the deals where their borrowers got turned down by other lenders. You have to be careful that you don't make any promises to the real estate agent. We will work very hard to make the deal work, however, not all loans can close. A lot of loans get turned down due to the lack of a down payment and/or credit problems. You should ask the real estate agent if they work with sellers who will hold back owner financed second mortgages, for this is the key to how we can get the tougher deals closed.

CPAs, Financial Planners and Attorneys: These RSP's work with specific clients who trust them and the advice they provide. In the quest for tax deductions, CPAs often suggest that their client buy a home for the interest deduction. The financial planner's goal is help their clients invest wisely with the money they have. Thus if you can help his client free up money as the result of a debt consolidation refinance or by purchasing a house, then both the client and the financial planner can benefit. Attorneys who specialize in divorce (people having to sell a house), bankruptcy (refinancing), estates (executors having to sell a house), and other areas, may need our assistance in helping their clients. These RSP's can be a strong source of income for you.

Once you have established a new relationship with an RSP, you should introduce him to us. We will sign a non-circumvention agreement with you that will guarantee you profits on all loans that we close with your RSP, thus earning you a consistent monthly income for as long as we work with you or them.

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